Appl. No. 09/385,489

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicants: Thomas J. Sullivan, et al.
Appl. No.: 09/385,489
Filed: August 30, 1999
Title: SYSTEM AND METHOD FOR ADMINISTERING PROMOTIONS
Art Unit: 3622
Examiner: D. Lastra
Docket No.: 0110754-629

DECLARATION UNDER 37 C.F.R. §1.132 OF RICHARD J. WINDISH

I, Richard J. Windish, hereby state as follows:

1. I am currently employed as Vice President, eSettlement Operations, of NCH Marketing Services, Inc., the assignee of the above-referenced patent application.

2. NCH Marketing Services, Inc., is a subsidiary of the Valassis Company.

3. NCH Marketing Services, Inc., among other things, is in the business of coupon processing and trade promotion administration.

4. I have worked for NCH Marketing Services, Inc. for 6 years.

5. I have worked in the food industry for over 46 years.

6. The food industry generally includes retail sales of food and other products such as packaged goods.

7. More specifically, I have worked at one of the largest supermarket companies in the United States for 29 years and at one of the larger consumer packaged goods companies in the United States for two years. At these companies, I

have worked in various positions that exposed me to the industry problems described later in this declaration.

8. I am one of the named inventors on and I have read the above-referenced patent application.

9. I have reviewed the February 7, 2005 U.S. patent office action for the above-referenced patent application.

10. I have reviewed Claims 1 to 32, 37 to 83, and 88 to 94 as amended in the response to the February 7, 2005 office action in the above-referenced patent application.

11. I have reviewed U.S. Patent No. 5,832,458 to Jones, U.S. Patent Application Publication No. 2003/0195806 to Willman et al., and U.S. Patent No. 5,918,211 to Sloane.

12. For at least the reasons set forth below, I believe that prior to the present invention, there was a long-felt and unresolved need in the food industry for systems and methods for administrating trade promotions as set forth in each of Claims 1 through 94 in the response to the February 7, 2005 office action for the above-referenced patent application.

13. One type of product promotion is known in the food industry as a consumer promotion. Consumer promotions often involve redeemable discount coupons. Consumer promotions using coupons have existed for over 50 years. In a typical coupon promotion, the manufacturer:

(a) selects the product to be promoted,

(b) sets the terms of the promotion including the monetary value of the coupon and the time period for the promotion,

(c) establishes the promotion region,

(d) facilitates the printing of the coupons, and

(e) facilitates the distribution of the coupons directly to the consumers.

A consumer uses the coupon at the time of the purchase of the promoted product typically at a retailer to receive the discount on the price of the product promoted.

14. In a typical coupon promotion, to obtain reimbursement, the retailer directly or indirectly (i.e., through an agent or clearinghouse) submits the redeemed coupon for processing and reimbursement. The retailer essentially acts as a conduit between the manufacturer and the consumer for honoring and processing the manufacturer's discount to the consumer.

15. The processed physical coupons provide the manufacturer a reasonable basis for paying the retailer for honoring and processing the manufacturer's discount to the consumer.

16. Another type of product promotion is known in the food industry as a trade promotion. A trade promotion involves promotion funds the manufacturer pays to the retailer for promoting a designated product and does not involve coupons. These trade promotions often require a retailer to advertise the promoted product. Such trade promotions have existed in the food industry for over 20 years. Manufacturers and retailers generally negotiate or collaborate on the nature and terms of the trade promotions. Each trade promotion is sometimes referred to as a deal in the food industry.

17. In a first form of trade promotion, under the agreed upon terms of the trade promotion, the retailer provides a discount on the promoted product to the consumer in the form of a reduced product price for the promoted product. The consumer receives the discount by simply purchasing the product (or in certain

instances by presenting a frequent shopper card or other identification when purchasing the promoted product).

18. In a second form of trade promotion, under the agreed upon terms of the trade promotion, the retailer promotes the product such as by prominently placing the product at the end of an aisle in the retailer's store. In this form, the retailer may or may not charge the consumer full price for the promoted product.

19. In these first two forms, the manufacturer pays the retailer based on the actual number of promoted products sold by the retailer during the period of the trade promotion based on the agreed upon terms of the trade promotion rather than on a number of coupons accepted or submitted by the retailer as in a coupon-based consumer promotion. The retailer receives a predetermined payment value or fee from the manufacturer for each promoted product sold by the retailer during the period of the trade promotion.

20. In a third form of trade promotion, the manufacturer pays the retailer a predetermined payment value or fee for conducting the trade promotion. The number of promoted products sold by the retailer during the period of the trade promotion is typically provided to the manufacturer as evidence that the retailer conducted the trade promotion according to the contract terms of the trade promotion.

21. In a fourth form of trade promotion, the manufacturer pays the retailer a combination of (i) a predetermined payment value for conducting the entire trade promotion, and (ii) a predetermined payment value for each of the promoted products sold during the trade promotion.

22. In trade promotions, the manufacturers do not have to facilitate the printing, distribution, or processing of coupons.

23. In trade promotions, the consumers do not have to obtain, carry, present, or otherwise handle or use coupons.

24. In trade promotions, the retailers do not have to accept, verify, or process coupons.

25. In trade promotions, since there is no coupon, the manufacturer does not have a processed physical coupon to rely on to verify the appropriate payment to the retailer for the promoted product sold during the trade promotion. Thus, trade promotions inherently create a significant verification problem for manufacturers.

26. Prior to the present invention, the known systems and methods for administrating trade promotions were generally inadequate to resolve this verification problem for at least the reasons discussed below.

27. For over 15 years prior to the present invention, to implement a trade promotion, a manufacturer usually contacted a retailer approximately a few weeks prior to the start of the proposed trade promotion and provided the retailer with proposed contract terms for the trade promotion on a deal sheet. The manufacturer usually sent or provided the deal sheet manually or electronically (such as by mail, facsimile, or e-mail) to the retailer. The retailer's representative evaluated the proposed terms of the trade promotion on the deal sheet and (a) accepted the trade promotion as is, (b) negotiated different terms for the trade promotion with the manufacturer, or (c) rejected the terms of the trade promotion outright. The negotiation, if any, was usually conducted by a manufacturer's representative and a retailer's representative in person or over the telephone. During the negotiation, usually the retailer's representative wrote notes on the deal sheet regarding the changes to the proposed terms of the trade promotion (such as the price of the product) discussed and changed during the negotiation.

28. If the manufacturer's representative and the retailer's representative reached an agreement on the trade promotion, each representative usually maintained their own copy of the deal sheet (which included their own individual notes on the agreed upon terms including any changed terms). In some instances, the manufacturer's representation simply relied on his or her memory for the changed terms. After the negotiation, the retailer and the manufacturer each had what they believed to be the agreed upon contract terms entered into their own manual or automated systems for tracking such trade promotions.

29. Prior to the present invention, although some attempts at sharing data may have been made by manufacturers and retailers, the manufacturer and retailer tracking methods for trade promotions operated completely independently of one another, and no unified or integrated communication or verification of the agreed upon contract terms of the trade promotion typically existed between these two separate tracking methods.

30. Prior to the present invention, the manufacturer and the retailer had no reliable, convenient, and cost effective independent method for verifying that the other party correctly understood and would employ the agreed upon contract terms of the trade promotion.

31. In some instances, prior to the start of the trade promotion, the retailer would desire to change one or more terms of the trade promotion such as the start date of the trade promotion for weather reasons. In such instances, the retailer often did not contact the manufacturer to re-negotiate the terms of the trade promotion such as the start date or to notify the manufacturer of the retailer's change.

32. The separate manufacturer and retailer tracking systems did not enable the retailer and the manufacturer to check or verify any such types of changes made to the terms of the trade promotion by the other party.

33. Prior to the present invention, this was a significant problem because the manufacturer and the retailer often had different terms recorded for the trade promotion and because the terms such as the start date of the promotion were sometimes changed on a unilateral basis.

34. Moreover, prior to the present invention, the manufacturer and the retailer sometimes had different recorded terms for the trade promotion. The retailers had control of all of the point of sale data and thus control of the promotion redemption. The manufacturer could only make estimates for resulting point of sale data. Processed point of sale data often resulted in discrepancies. Such discrepancies were difficult to resolve and often remained unresolved.

35. Prior to the present invention, to obtain payment for conducting a trade promotion, a retailer used mostly manual and sometimes automated systems to determine the amount of money the manufacturer owed the retailer based on the terms of the trade promotion the retailer had in its manual or automated system.

36. Such systems were not accessible by the manufacturer and did not enable the manufacturer to determine if the retailer used the negotiated or agreed upon terms of the trade promotion (or at least the terms the manufacturer understood to be the agreed upon terms) to determine the amount of money the manufacturer owed the retailer for the trade promotion.

37. Prior to the present invention, the retailer generally either: (1) generated an invoice for the calculated amount and sent it to the manufacturer for payment; or (2) deducted the calculated amount from any amounts the retailer owed the manufacturer for the promoted product or sometimes for a completely different product. In this second scenario, the retailer would write the deductions on the invoices received from the manufacturer for products and pay the manufacturer reduced amounts on

those invoices. These deductions on the manufacturer invoices by the retailer are known in the food industry as invoice deductions.

38. Prior to the present invention, the manufacturer processed the retailer invoice or invoice deduction (and reduced payment). Usually, the manufacturer merely accepted the invoice or reduced payment notice (and reduced payment).

39. Prior to the present invention, in many instances, the retailer made invoice deductions without notifying the manufacturer.

40. Prior to the present invention, in the known procedures and systems for administering trade promotions, the manufacturer did not have the ability to readily or independently verify:

(a) the retailer's calculated performance total due to the retailer,

(b) the number of promoted products sold by the retailer during the trade promotion period, or

(c) the amount of the discounts given to the consumers for the promoted products during the trade promotion.

41. Prior to the present invention, manufacturers also had no way of monitoring results of the trade promotion during or as the trade promotion occurred.

42. Prior to the present invention, known systems thus provided little reliability for the administration of trade promotions handled by the manufacturer.

43. Additionally, prior to the present invention, in the known procedures and systems for administering trade promotions, the retailer spent a significant number of man-hours creating and processing:

(a) the point of sale movement data,

(b) invoices for the manufacturer, and

(c) invoice deductions.

44. Prior to the present invention, retailers sometimes failed to track a trade promotion altogether.

45. Prior to the present invention, retailers sometimes failed to track all of the products involved in all of the trade promotions.

46. Prior to the present invention, these problems with administering trade promotions were compounded by the shear volume of trade promotions implemented by manufacturers and retailers.

47. A single manufacturer may have tens of thousands of trade promotions pending at one time, in part because they deal with many retailers.

48. A single manufacturer may have hundreds of thousands of trade promotions in a year, in part because they deal with many retailers.

49. A single retailer may have thousands of trade promotions pending at one time, in part because they deal with many manufacturers.

50. A single retailer may have tens of thousands of trade promotions pending in a year, in part because they deal with many manufacturers.

51. Prior to the present invention, as further evidenced below, various manufacturers, retailers, and others have suggested that someone should solve these problems, but all such attempts have been unsuccessful.

52. For instance, U.S. Patent 5,832,458 to *Jones* recognized problems with consumer promotions and also suggested that the proposed system could be used to solve some of the problems with trade promotions.

53. More specifically, *Jones* proposed a system for electronically independently auditing retailer sales transactions through retailer point of sale systems. *Jones's* proposed an in-store system for independently collecting, processing and storing retail sales transaction data including coupon data at each retailer store. The *Jones* system independently directly captured specified information (regarding each in-store transaction including any transaction involving a coupon) by monitoring communications between the individual scanners or cash registers in a store and the in-store processor. The *Jones* system periodically provided the retail sales transaction data including coupon data it collected to manufacturers and retailers.

54. For trade promotions, the proposed *Jones* system passively recorded point of sale transactions, stored the data, and provided reports of the transactions to both retailers and manufacturers. The *Jones* system for trade promotions was complete at the reporting stage. The trade promotion audit reports were provided to the retailers and manufacturers to help them resolve any payment disputes and involved no additional processes.

55. Thus, *Jones* recognized a need for better trade promotion administration systems. However, the proposed *Jones* solution for such systems is essentially independently obtaining the retailer point of sale data from the retailer and providing that independently obtained data to the manufacturer.

56. The *Jones* system for trade promotions has never been commercially successful.

57. After the present invention and the filing date of the present application, NCH Marketing Services, Inc. continued the development of the present commercial system which implements the presently claimed invention. The commercial system was substantially completed in late 2002.

58. Prior to the present invention, and prior to commercial rollout of the present invention in late 2002 and early 2003, among the various problems with trade promotions, the need for an efficient and effective system or method for trade promotion administration had been clearly expressed in the food industry numerous other times.

59. In 1993, Kurt Salmon Associates prepared a report titled "Efficient Consumer Response" ("ECR") (attached hereto behind Tab A) for the Uniform Code Council (UCC), Grocery Manufacturers of America (GMA), Food Marketing Institute (FMI), National Food Brokers Association (NFBA), and the America Meat Institute (AMI). The 1993 ECR report was a ground breaking study and was widely disseminated in the food industry. Page 2 of the 1993 ECR report recognized the then existing general need for food industry members to focus on "efficiency of the total grocery supply system, rather than the efficiency of individual components" to reduce total system costs. Page 2 of the 1993 ECR report also recognized the need to replace "old paradigms of win/lose trading relationships with win/win mutually profitable business alliances."

60. More specifically, page 4 of the 1993 ECR report recognized the complexity of trade promotions and expressly recommended maximizing the total system efficiency of trade and consumer promotions. The report made this recommendation in part because the typical retailer "may have 7,000-8,000 [trade promotion] deals on file at any one time, leading to numerous misunderstandings over deal terms" which accounted for 78 percent of the invoice deductions (generally described above). (See 1993 ECR report page 81). As described above, these invoice

deductions were due in part to inefficient independent manual retailer and manufacturer trade promotion administration procedures.

61. Five years later, in 1998, Cannondale Associates published a report titled "Trade Promotion Spending & Merchandising 1998 Industry Study" ("TPSM") (attached hereto behind Tab B) regarding trade promotion management. Page 10 of the 1998 TPSM report expressly states that "Trade Promotion inefficiency is the #1 manufacturer issue with 90% of manufacturer participants rating it as very/extremely important." Page 10 of the 1998 TPSM report also stated that "after several years of trend tracking, Trade Promotion remains the top issue while many other issues have declined in importance." Page 14 of the 1998 TPSM report further recognized that trade promotions are nearly the largest expenditure for manufacturers, but "it is surprising that manufacturers aren't more effectively addressing this area."

62. The 1998 TPSM report further recognized that trade promotion process ineffectiveness accounts at least in part for why "84% [of manufacturers] do not feel they are getting a good value for their trade $" and why "manufacturers believe trade promotion is a poor investment." (See 1998 TPSM report, chart on page 15).

63. Page 15 of the 1998 TPSM report indicates that the five most significant problems with trade promotions for manufacturers included deductions and inadequate analysis.

64. In 2000, Cannondale Associates published a follow-up report titled "Trade Promotion Spending & Merchandising 2000 Industry Study" ("TPSM") (attached hereto behind Tab C). Page 13 of the 2000 TPSM report again recognized that "trade promotion inefficiency remains the #1 manufacturer issue with 90% of manufacturer participants rating it as very/extremely important and 69% of retailer participants rating it as very/extremely important."

65. Page 27 of the 2000 TPSM report also indicates that most of the manufacturers did not feel that they were effective in analyzing and evaluating trade promotion productively. This is at least in part because they did not have a suitable system for administering the trade promotions.

66. In 2003, Cannondale Associates published another follow-up report titled "Trade Promotion Spending & Merchandising 2003 Industry Study" ("TPSM") (attached hereto behind Tab D). Page 7 of the 2003 TPSM report recognized that "since 1994, trade promotion inefficiency has ranked at the top of the list of industry issues for manufacturers, and among the top issues for retailers."

67. Page 7 of the 2003 TPSM report further noted that to address this concern, manufacturers made "substantial investments in systems or tools to improve planning, tracking, analysis, and control" of trade promotions but that these systems have only "given managers the illusion of gaining control." These manufacturer systems did not include the retailers and did not include an independent system for administering the trade promotions. Accordingly, manufacturers have tried without success to address a clearly and nearly universally held long felt need for a better trade promotion administration system.

68. In 2000, Prime Consulting prepared a report titled "Invoice Accuracy: Industry Survey & Benchmarks, 2000 Report" (attached hereto behind Tab E) for Grocery Manufacturers of America (GMA). The 2000 Invoice Accuracy report compiled data regarding invoice deduction practice from 35 leading food and beverage companies, with an average of $2.3 billion in annual invoiced sales. (See 2000 Invoice Accuracy report pages 1 and 3). Page 21 of the 2000 Invoice Accuracy study reported that participants found that promotions were responsible for 68 percent of deductions, the largest percentage of invoice deductions.

69. The 2000 Invoice Accuracy report on page 31 shows that companies reported a startling 31 percent increase in human resources to combat problems with invoice deductions. Despite these expenditures and this manpower, page 16 of the 2000 Invoice Accuracy report also stated that participants "realize they have a long way to go before achieving it [invoice accuracy]." This further illustrates and verifies the long standing existence and recognition of the above-described problems with invoice deductions for trade promotions.

70. In 2002, Prime Consulting prepared a report titled "Invoice Accuracy: Industry Survey & Benchmarks, 2002 Report" (attached hereto behind Tab F) for Grocery Manufacturers of America (GMA). Page 2 of the 2002 Invoice Accuracy report recognized that pricing and promotions continued to be the highest percentage of invoice deductions at 65 percent. Page 12 of the 2002 Invoice Accuracy reports that in addition to promotion complexity, invoice administration problems were still expressed as the need to improve communications, increase data synchronization, and improve information systems, among other process improvements.

71. Page 20 of the 2002 Invoice Accuracy report shows that on average 45 percent of invoice deductions were invalid. Page 20 of the 2002 Invoice Accuracy report noted that some companies automatically accepted invoice deductions from customers below a certain dollar amount to keep invoice deduction administrative costs at a minimum. Page 20 of the 2002 Invoice Accuracy report also shows that despite process improvement measures, facilities costs and overhead costs still increased from the previous survey. This report reiterates a long existing invoice deduction problem for trade promotions.

72. In 2000, AC Nielsen prepared a report titled the "Tenth Annual Survey of Trade Promotion Practices 2000" ("TPP") (attached hereto behind Tab G). Page 69 of the 2000 TPP report states that trade promotion efficiency and effectiveness are

recognized by both manufacturers and retailers as the number one critical issue under "Key Issues Faced in Today's Market – 2000".

73. Page 70 of the 2000 TPP report also reflects that manufacturers and retailers both ranked trade promotion efficiency and effectiveness at the top of a list of the "Most Important Critical Issues" in trade promotions.

74. The present invention has been and continues to be commercially implemented by manufacturers and retailers at a steady pace since the initial introduction of the commercial embodiment of the present invention in late 2002 and 2003.

75. Based on these reports and my experience with trade promotions, I believe that there has been a failure by others to find an effective solution for trade promotion administration.

76. Accordingly, I submit that prior to the present invention, there was a long felt, but unresolved need for the trade promotion administration systems and methods set forth in Claims 1 through 94 of the response to the February 7, 2005 office action.

I hereby declare that all statements made herein of my own knowledge are true and that all statements made upon information and belief are believed to be true; and further that these statements and the like so made are punishable by fine or imprisonment, or both, under § 1001 of Title 18 of the United States Code and that such willful false statements may jeopardize the validity of the patent.

Signature: [signature]
Name: Richard J. Windish
Date Signed: 7/5/05